Rethinking the Emerging Post-Washington Consensus

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ABSTRACT

The objective of this article is to provide a critical assessment of the emerging Post-Washington Consensus (PWC), as the new influential vision in the development debate. The authors begin by tracing the main record of the Washington Consensus, the set of neoliberal economic policies propagated largely by key Bretton Woods institutions like the World Bank and the IMF, that penetrated into the economic policy agendas of many developing countries from the late 1970s onwards. They then outline the main tenets of the PWC, emerging from the shortcomings of that record and the reaction it created in the political realm. The authors accept that the PWC, in so far as it influences the actual practice of key Bretton Woods institutions, provides an improvement over the Washington Consensus. Yet, at the same time, they draw attention to the failure of the PWC, as reflected in current policy practice, to provide a sufficiently broad framework for dealing with key and pressing development issues such as income distribution, poverty and self-sustained growth.

INTRODUCTION

The period from the late 1970s to the early 1990s witnessed a major upsurge in neoliberal ideas in the context of the development process and development strategies. This neoliberal counter-revolution represented a major assault on national developmentalism, in the context of which the state had played an active role in the development process through such strategies as import-substituting industrialization and financial repression. The emerging neoliberal orthodoxy advocated a new development model based on the primacy of individualism, market liberalism, outward-orientation, and state contraction. The organizing principle of neoliberal political economy was the notion of a minimal state, whose primary functions were to secure law and order, ensure macroeconomic stability and provide the necessary physical infrastructure.[1]

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1. On the resurgence of neoliberal thinking in development, see Colclough and Manor (2000), Preston (2000) and Toye (1987).

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The new orthodoxy identified widespread and excessive state intervention as the major cause of weak economic progress. The natural implication of this diagnosis was that the market should be liberated from the distorting influences of large public sectors, pervasive controls and populist interventionism. Neoliberal thinking, in turn, exercised an important practical influence on the policy discourse of key Bretton Woods institutions such as the IMF and the World Bank. The central tenet of neoliberal thinking and the associated 'Washington Consensus' was 'getting the prices right'. The state itself was conceived as the problem rather than the solution. The universal policy proposal was to pursue a systematic programme of decreasing state involvement in the economy through trade liberalization, privatization and reduced public spending, freeing key relative prices such as interest rates and exchange rates and lifting exchange controls. Efficient allocation of resources would be guaranteed by relative prices determined through the impersonal forces of the free market. The logical corollary of this was that the cost of 'government failures' arising from rent-seeking and price distortions associated with excessive protectionism would always outweigh 'market failures' associated mostly with imperfect competition and under-provision of public goods. The Washington Consensus was thus increasingly based on the understanding that imperfect markets are always superior to imperfect states.[2]

The rise of neoliberal orthodoxy was in addition supported by a powerful 'new political economy' that challenged the notion of a benign state which would always act in the public interest, an idea that was at the core of structuralist development thinking and the associated models of national developmentalism. The political economy element embodied in neoliberal thinking underlined the need to analyse the state, not as an abstract institution divorced from the society at large, but as a powerful interest group in itself. This implied that the actors concerned could take advantage of the rents associated with highly interventionist policies, with self-maximizing politicians and bureaucrats using their powerful position in society through various forms of corruption. This was also used to explain the persistence of policies such as protectionism: although they were against the public interest at large, such policies continued to be implemented because they usually involved numerically small but powerful interest groups, such as rent-seeking elements in the private sector, and state officials. A natural implication of this rather bleak view of politics and interventionist economic policies was that liberalization and state contraction were necessary tools to curb the excessive powers enjoyed by politicians and bureaucrats, a process which was regarded as crucial for rapid and equitable economic growth.[3]

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2. For powerful expositions of this line of thinking, see Lal (1983) and Little (1982).
3. On the political economy dimension of neoliberal resurgence, see Colclough and Manor (2000).

By the beginning of the 1990s, however, the Washington Consensus itself was under serious challenge. A major objective of the present study is to uncover the forces that have progressively undermined the very foundations of the Washington Consensus, resulting in the emergence of a new line of thinking in development, namely the 'Post-Washington Consensus' (PWC). An attempt will be made to disaggregate the principal elements of this new consensus, which seems to have been emerging within the dominant policy establishment in recent years. We do recognize that key elements of the emerging PWC constitute progress over the naïve postulates of the earlier Washington Consensus that it seeks to transcend, but our central criticism is that the PWC does not go far enough in overcoming the limitations of the neoliberal policy agenda.

In this context, the following questions assume particular relevance. Is it possible to accomplish significant poverty alleviation without altering the underlying asset or wealth distribution? Is it possible to deal effectively with issues such as unemployment, poverty, and the broader and even more challenging distributional issues through growth alone without taking into account considerations relating to ownership structures? Similarly, is it possible to reform the key Bretton Woods institutions in a meaningful way, without tackling the underlying structure of power at the global level? A genuine encounter with the development issues of the post-neoliberal era requires a serious consideration of fundamental questions of this nature. Our central contention is that although power issues in the domestic and international arena are at stake, these are not sufficiently emphasized in the emerging PWC.

THE WASHINGTON CONSENSUS UNDER CHALLENGE

The hegemonic position of the neoliberal paradigm had started to run into serious criticisms by the beginning of the 1990s. The growing intellectual challenge to neoliberal orthodoxy was based on accumulating empirical evidence that undermined the fundamental claim of the Washington Consensus that full-scale liberalization, at all costs, is associated with superior economic performance. The following facts of development performance in the neoliberal era, although somewhat stylized here, deserve particular emphasis.

A highly influential element in the neoliberal resurgence had involved the interpretation of the East Asian success. The superior economic performance of Newly Industrializing Countries (NICs) in East Asia, not only in the realm of economic growth but also in terms of key social indicators, was interpreted in such a way as to provide strong support for the neoliberal paradigm. Countries such as South Korea and Taiwan had, for example, managed to combine outstanding rates of economic growth with striking performances in the domains of employment expansion, poverty reduction,

and income distribution. In the neoliberal vision, Asian NICs were successful because they were less protectionist, more outward-oriented and closer to the norms of the free market than their counterparts in other parts of the developing world (see Little, 1982). Countries that were heavily *dirigist* and protectionist in their economic policies, on the other hand, experienced not only slower rates of economic growth but also higher income inequality and limited success in terms of employment expansion and poverty reduction. Such countries also experienced serious macroeconomic instability and crises which were absent in the East Asian context for most of the post-World War II period.

This kind of dichotomy, which had formed one of the central pillars of the Washington Consensus, was seriously challenged by more careful and detailed accounts of East Asian successes. Institutionalist interpretations of hyper-growth in South Korea and Taiwan highlighted the fact that rapid industrialization and export growth was at the heart of their superior economic performance. Yet, strong growth and diversification of industrial output and exports could not be accounted for simply by the logic of the free market: interventionist strategies and an active industrial policy, dictated by considerations relating to longer-term competitiveness and dynamic comparative advantage, constituted the central elements contributing towards their success.[4]

Superficially, these economies seemed to be characterized by a low degree of protectionism, while the size of state involvement in the economy appeared to be lower than their less successful counterparts elsewhere. However, a closer investigation revealed that effective state interventionism and an appropriate mix of state and market, as well as import-substitution and export-promotion, were the key ingredients of their superior economic performance. This kind of empirical evidence clearly contradicted one of the basic assumptions of the neoliberal political economy that interventionist strategies necessarily work against long-term public interest. In retrospect, the institutionalist interpretation suggested that the kind of strategies adopted in East Asia represented national developmentalism of a different type. It also suggested that under certain specific conditions state interventionism can act in the public interest and can play a constructive role in the development process. The record of these countries, which had been skilfully used to provide empirical backing for neoliberal wisdom, has thus been instrumental in undermining it in the light of this powerful new evidence.

Probing further into the empirical landscape, another doubt was cast on the intellectual underpinnings of the neoliberal orthodoxy in terms of the overall growth performance of the world economy. Overall growth in

4. Among the most influential studies are Amsden (1989) on South Korea and Wade (1990) on Taiwan. Also see Öniş (1998: 197–216; 261–84).

the world economy has been strikingly lower and more unstable during the neoliberal era compared to earlier periods. The gap between developed and less developed countries has widened, and there has been increased divergence within the Third World.[5] For example, in comparison to the hyper-growth experienced by Asian NICs, Latin America in the 1980s and sub-Saharan Africa throughout the past two decades have lagged far behind. A large number of African countries were stagnant or registered negative rates of growth during this period. Latin American countries, after a similar performance in the 1980s, showed signs of recovery thereafter, but only at a slow pace. While both regions had stagnant investment performance and experienced deindustrialization, East Asian countries again posted the majority of good performances.[6]

It would be an exaggeration to claim that all the social and economic problems experienced by developing countries in the 1990s were due to the neoliberal economic policies implemented under the Washington Consensus. Clearly, some of these problems had existed long before neoliberal reforms were introduced; yet, the implementation of neoliberal reforms appears to have aggravated them. Not only has overall growth been lower, but the degree of inequality in the global economy appears to have increased during the era of neoliberal restructuring.[7] With regard to poverty the evidence is rather mixed. World Bank estimates show that the number of people living on less than one dollar a day has remained almost constant during the 1987–99 period, while the overall poverty rate for the same period has declined from 28.3 per cent to 23.3 per cent. Even those who claim that the poverty rate has fallen during the period of neoliberal restructuring concede, however, that this is due mostly to good performances in Asia, particularly in China. Excluding China, there is an increase in the absolute number of poor people while the fall in the poverty rate becomes more modest, declining from 28.5 per cent to 25 per cent (see Fischer, 2003: 8). In any event, the experience of many countries under neoliberal reforms, such as Argentina and Turkey, has clearly demonstrated that economic growth *per se* is insufficient to deal with the problem of endemic poverty (see Şenses, 2001, 2003).

There is no doubt that neoliberal experiments in the developing and the post-communist world have also been characterized by considerable variation in economic performance among different countries as well as between different time-periods within the same country. Countries have also diverged sharply in terms of their ability to apply neoliberal reforms on a

5. See Rock (1993) and the annual *Trade and Development Reports* published by UNCTAD for different years.
6. For evidence on growth and investment rates, see Kozul-Wright (2003); Pamuk (2002); UNCTAD (1999).
7. For evidence of rising inequality during the neoliberal era, see Akyüz et al. (2002), UNCTAD (1997) and Wade (2001a, 2001b).

sustained basis, particularly in the framework of nascent democratic institutions. One should, therefore, guard against simple generalizations in this respect. Yet, it is also the case that the application of neoliberal principles has produced only a few cases of sustained success.

Disaggregating economic performance under neoliberal reforms, premature financial and capital account liberalization have arguably constituted the soft spot of the Washington Consensus. A number of middle-income countries or 'emerging markets' have been encouraged or pressurized by key international institutions to open up their capital accounts before accomplishing a stable macroeconomic environment and constructing the necessary regulatory infrastructure over their financial systems. Premature exposure to the vagaries of financial globalization has been costly for many economies in the semi-periphery. Many countries found themselves on a highly fragile growth path based on short-term and highly speculative inflows of capital. Reliance on debt-led growth, without paying sufficient attention to the need to increase domestic savings, improve the long-term competitiveness of the real economy and establish an adequate regulatory framework for their financial sectors, rendered such economies increasingly vulnerable to speculative attacks and frequent financial crises. Indeed, the very frequency of financial crises — primarily, if not exclusively, in the developing world — has been one of the most striking features of the global economic environment in the post-1990 era. What is also striking is that such crises have not been confined to certain regions of the developing world, such as Latin America, as was the case in the era of import-substitution and national developmentalism; they have also occurred in Eastern Europe, and in East and Southeast Asia, regions that had been quite successful in avoiding financial crises in the past.

The highly volatile capital flows and frequent financial crises associated with under-regulated financial systems and open capital account regimes have proved to be costly in a number of important ways. First, they increasingly undermined the basis of sustained economic growth not only at the level of the individual nation state but at regional and global levels. A striking characteristic of the new era involved the possibility of contagion, with crisis in one country leading to declines in the availability of capital flows to countries in other parts of the world through its impact on investor perceptions and confidence. This was surely the case following the Asian crisis of 1997 and the Russian crisis of 1998, the aftermath of which saw investors being much more reluctant to commit funds to the high-risk financial environments of the so-called emerging markets. This injected a deflationary bias into the world economy that impacted both on individual nation states and on the workings of the global economy as a whole. Such crises have been costly not only in terms of growth but also in terms of their impact on poverty and income distribution. In many cases, the poor and the middle strata of society have been disproportionately affected, with highly negative social and political consequences.

Another disturbing feature of the neoliberal era involved pervasive state failure, with corruption in government emerging as a major area of concern under neoliberal reforms.[8] This observation is rather paradoxical in the sense that the whole spirit of neoliberal reforms was predicated on the notion of overcoming pervasive rent-seeking and corruption which were diagnosed as natural by-products of excessive state intervention in the economy. Instead of this, the liberalization process itself helped to undermine the effectiveness and legitimacy of state institutions, creating a vacuum and producing an environment within which widespread corruption could flourish. Again what is striking is that the problem has not been unique to individual countries or regions, but has manifested itself as a broad, systemic problem, evident in all parts of the developing world. As in the case of financial crises, these instances of state failure have not only undermined growth, but also had a markedly negative impact on income distribution, trust, social cohesion, and ecological balance.[9]

In terms of growth performance, it is worth noting that some of the most drastic experiments in neoliberal reforms have ended in failure. A typical example is the case of Argentina. After a period of prolonged stagnation in the post-World War II period, Argentina embarked upon a far-reaching experiment in neoliberal economic restructuring in the early 1990s. By adhering rigidly to the convertibility plan and its institutional counterpart, the currency board, in line with the advice of the IMF, it had considerable success in the early years in terms of reducing inflation from hyperinflation to single digit levels and engineering a massive privatization that helped to attract capital flows on a large scale.[10] By the mid-1990s, Argentina was growing at historically unprecedented rates, and was singled out by the key Bretton Woods institutions as a model case that other countries ought to emulate. But the kind of fragile, debt-led growth that Argentina was experiencing started to lose momentum in the second half of the 1990s and came to a total standstill following the crisis of 2001. The crisis itself had costly consequences and has been a source of massive protests. We cannot give the Argentine case the attention it deserves here: what is relevant for our purposes is that a country that appeared to be fully committed to the implementation of the neoliberal agenda has ultimately found itself in the midst of a deep economic crisis with dire social effects.

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8. International organizations like the World Bank started to pay increased attention to this issue in the mid-1990s. For the World Bank's initiatives to deal with corruption, see the World Bank Anticorruption Website, available at http://www1.worldbank.org/publicsector/anticorrupt/index.cfm.
9. Indeed, the two phenomena are interlinked. Countries that have experienced frequent financial crises are also countries that have been characterized by widespread corruption.
10. On the rise and fall of neoliberalism in Argentina, see Baer et al. (2002). We should note that there is some controversy over the extent to which the IMF itself favoured the rigid version of the convertibility plan that was put into effect by the Minister for the Economy, Domingho Cavallo.

Nor is Argentina unique in this respect. Turkey had one of the very first encounters with the Washington consensus in 1980. By the mid-1980s, it had recovered from a major crisis and found itself on a steady growth path based on rapid expansion of exports. Again, it was identified by the principal international financial institutions as a model case of successful restructuring (Şenses, 1991). But the performance of the Turkish economy deteriorated in the 1990s, notably following the decision to open up the capital account fully in 1989, in the face of rising macroeconomic instability and without the necessary regulatory and legal safeguards. Turkey has experienced three important crises during the second phase of neoliberal reform which have clearly jeopardized the country's growth and income distribution performance.[11] It is currently trying to recover from the latest and deepest of these, the crisis of 2001. The list of such cases — which have been initially identified as neoliberal success stories but whose performances have subsequently failed to live up to initial expectations — can be extended further.

Finally, another major challenge to the Washington Consensus arose from the observation that the small number of countries achieving high rates of growth in recent years have deviated from neoliberal norms in certain crucial respects. China and Vietnam, the two hyper-growth cases, have successfully penetrated into export markets on the basis of low wages and attracting large amounts of long-term foreign investment. Yet, neither of these countries has conformed fully to the neo-classical logic; selective infant industry protectionism and active industrial policy have been the key components of the policy package in both cases.[12] India, a country which has been growing rapidly and emerging as one of the few real success stories of the recent era, has been liberalizing its trade and capital account regime but only gradually (see Ahluwalia, 1999). Malaysia, another successful case of rapid growth based on export-orientation and foreign direct investment, has deviated from the norms of the Washington Consensus in a critical respect, namely through the imposition of controls over short-term capital flows. It can be argued that this non-orthodox instrument helped insulate Malaysia from the vagaries of the Asian crisis which has proved to be so costly for other countries in the region such as Thailand and Indonesia (see Kaplan and Rodrik, 2001). Chile, widely considered to be the most successful country over time during the neoliberal era, also deviated from neoliberal norms by effective state involvement in the creation of natural resource based export activities after the mid-1980s (see Kozul-Wright, 2003: 12)

11. On the neoliberal experiment of Turkey, see Öniş (1998) and Şenses (1991). On the recent set of crises and their costly ramifications, see Öniş and Rubin (2003).
12. On the growth performance of the Chinese economy and the nature of the heterodox instruments employed, see Ma (1999). On Vietnam's success with gradualist economic reforms, see Truong and Gates (1996).

and, perhaps more crucially, by maintaining controls over short-term capital flows throughout the 1990s (see Krugman, 1998; Stiglitz, 1999). Russia, which achieved rapid growth following the 1998 crisis, is another country that has only partially liberalized its capital account regime.

In similar vein, the countries which have been more successful with economic reform in Eastern Europe — notably Poland, Hungary and the Czech Republic — have, rather than simply relying on neoliberal reforms, benefited from the existence of a double external anchor. Not only the Bretton Woods institutions, but the EU as well, have played an active role in their transformation process. The prospect of early EU membership has generated major additional benefits to these countries, and provided them considerable leeway in maximizing the gains and minimizing the losses associated with neoliberal reforms. Financial resources associated with early accession have strengthened the hand of reformers in such economies; positive signals from the EU have helped them to attract considerable foreign direct investment. Clearly, such additional incentives have been lacking for the remainder of the developing world, a category that includes a large segment of post-communist Eastern Europe. Hence, it would be misleading to use these countries as examples of successful neoliberal reform, as they may not have achieved this level of success without the unusually favourable mix of conditions and incentives associated with the prospects of early accession to the EU.

It is also important to point out that the limited number of successful cases identified above found themselves in a situation which could be described as a virtuous circle. Arguably, they managed to be successful by deviating from neoliberal norms in certain crucial respects. The fact that they were successful and could avoid crises meant that they could go on experimenting with heterodox instruments without encountering the discipline of international financial institutions. Less successful countries like Argentina and Turkey, in contrast, found themselves trapped in a vicious circle. Their conformity with key aspects of neoliberal reforms, such as early capital account liberalization, rendered them inherently crisis-prone. Once they found themselves in a crisis situation, but simultaneously within the straightjacket of a formal IMF programme, they were in no position to experiment with heterodox policy instruments such as controls over short-term capital flows.

OTHER CHALLENGES TO THE WASHINGTON CONSENSUS: ALTERNATIVE SITES OF RESISTANCE

Mounting evidence from a number of national cases has clearly helped to undermine the intellectual appeal of the neoliberal policy agenda and the optimism associated with the early years of the Washington Consensus. However, significant challenges have also been directed at the prevailing

neoliberal orthodoxy on a variety of different platforms. Mounting protests have emerged in recent years against the costly social consequences of neoliberal restructuring at local and national levels. The rise of the Zapatista movement and the Chiapas civil war in Mexico in 1994 could be identified as a prototype local level resistance to the regressive redistribution effects of neoliberal restructuring.[13] At the level of the nation state, striking examples include the massive protests in Argentina following the crisis of 2001, widespread protests and riots in Indonesia and other countries following the Asian crisis, and the major protests mounted in Peru against the negative consequences of the neoliberal reform process. In many countries, including Turkey, social protests have been more sporadic but nevertheless present. At a different level, the opposition of certain powerful groups headed by trade unions within the industrialized countries to important components of neoliberalism such as trade liberalization has no doubt strengthened the challenge to the Washington Consensus, in much the same way as the Thatcher–Reagan experiments in the UK and the USA in the early 1980s reinforced the spread of neoliberal economic policies in the developing countries.

Another source of resistance has been at the level of the emerging global civil society through the medium of the global non-governmental organizations (NGOs), with the protests at the meeting of the World Trade Organization (WTO) in Seattle in early 2000 precipitating a wave of similar protests in Prague, Rome, Quebec and elsewhere, principally targeting the key institutions of neoliberal globalization such as the IMF, World Bank and WTO. These global NGOs exploit the advantages of globalization in the realms of technology and communications to present a truly international challenge to neoliberalism, which itself is a global phenomenon. Admittedly, the so called 'anti-globalization' movement — or perhaps more accurately, the 'alternative globalization movement' — does not represent a coherent whole or a monolithic bloc with a consistent set of demands, but rather a collection of interests.[14] The most influential element within this group is formed by the developed country NGOs, notably the labour and environmentalist groups from the United States which are generally anti-free trade in their orientation. The alternative globalization movement also includes significant elements from the 'south', which favour improved access to developed country markets and technology developed in the 'north'. Hence, there is a certain inevitable clash of interests between the different components of the movement, combining protectionist elements from the north and pro-free trade elements from the south, calling for improved access to developed country markets. In spite of its inherent ambiguities,

13. For examples of widespread resistance to neoliberal globalization at the local level, see Mittelman (2000).
14. On global civil society and global NGOs, see Scholte and Schnabel (2002).

organizational weaknesses and failure to present a clearly and consistently defined alternative agenda, however, the significance of the emerging global civil movement against neoliberalism should not be underestimated.

The kinds of pressures that we have tried to highlight so far are pressures from the periphery or challenges from below to the dominant structures and institutions of global neoliberalism. However, an important rethinking process has also been occurring in recent years within the dominant establishment itself. Hence, in addition to pressures originating from below that we have already identified, a powerful set of pressures from above has been operating in such a way as to modify the underlying edifice of the neoliberal policy agenda. Both the World Bank and the IMF have been trying to respond to serious criticisms levelled against global neoliberalism, notably in the realms of the reform of the international financial architecture and the process of poverty alleviation. From the response of these key multilateral institutions one can start to detect the salient elements of a Post-Washington Consensus that effectively constitutes a synthesis of national developmentalism and the neoliberal policy agenda itself.

TOWARDS A POST-WASHINGTON CONSENSUS: BASIC TENETS OF THE EMERGING ESTABLISHMENT PERSPECTIVE

It is possible to discern a noticeable shift in the policy focus of the key Bretton Woods institutions in recent years away from a hard-core neoliberalism to a new kind of synthesis which could be described as the emerging Post-Washington Consensus. Arguably, the process started in the World Bank at an earlier stage than in the IMF: there has been a renewed interest in poverty and governance issues at the Bank, which began in the early 1990s.[15] Research and publications, particularly influenced by the revisionist accounts of the East Asian success, emphasized the importance of institutions and the need to improve the performance of the state as a necessary ingredient of market-oriented reforms. Research into the transition economies of the post-communist world appeared to provide additional support for the claim that institutions matter and the performance of the state needs to be improved in all kinds of transitional economies. Similarly, there was some recognition at the Bank that persistent poverty could not be eliminated simply through the expected trickle-down effects of improved efficiency and rising growth.

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15. For World Bank studies emphasizing the importance of good governance and the need for increased emphasis on poverty reduction, see World Bank (1990), 2000. For the influential report published by the World Bank on the 'Asian Miracle' stressing the role of the state and the importance of effective institution building in the development process, see World Bank (1993). On transition economies, see World Bank (1996), and on the state, see World Bank (1997).

Compared to the Bank, the IMF tends to be a more enclosed and a less heterogeneous organization, less open to self-criticism. It is perhaps not surprising therefore that serious reform initiatives have come at a later stage. The Asian crisis of 1997 proved to be a decisive turning point in this context: for the first time in its history, the IMF was confronted with serious criticism from the dominant establishment concerning its handling of the crisis. It was accused not only of failing to predict the crisis, but also of actually making things worse in the aftermath. The Asian crisis was also important in terms of producing a serious rift between the two Bretton Woods institutions — again for the first time for many decades. Following the rethinking process that has occurred, the IMF now tends to pay far more attention to regulatory reforms, notably in the context of the banking and financial system, and recognizes far more than in the past the importance of strong institutions and 'good governance'.[16]

Needless to say, it would be wrong to talk about the PWC as a monolithic entity. The work of the Nobel Prize winning economist, Joseph Stiglitz, who occupied a critical position as the chief economist of the World Bank at the time of the Asian crisis, has been particularly influential in providing the intellectual backbone to the emerging PWC, but a number of other major figures within the dominant academic and policy-making circles of North America have also played a significant role. Dani Rodrik, Paul Krugman, Stanley Fischer, William Easterly and Ravi Kanbur have all made important intellectual contributions in challenging the basic precepts of the dominant orthodoxy.[17]

Nevertheless, in trying to present a picture of the PWC, it would be useful to focus on the work of Stiglitz for two major reasons. First, as a highly respected academic economist and a key figure at the World Bank, his criticisms have carried much weight. The IMF is quite used to being criticized, but until the Asian crisis, such criticism had originated primarily from the 'periphery' — intellectuals and policy-makers in the Third World, or radical intellectuals in the 'north' who were located on the margins of the academic and policy-making circles. With the onset of the Asian crisis, however, the IMF especially became the object of serious criticism from the 'centre', within the key Bretton Woods institutions themselves. Stiglitz was particularly vocal in his criticisms of the IMF, and his views, more than those of any other economist, have been widely publicized.[18] Second, in a number of his recent publications he has tried to provide a coherent

16. See, for example, the speeches made by Stanley Fischer (2002) who, as the Vice-President of the Fund, played an active role in this self-evaluation process following the Asian crisis.
17. Among the influential contributions in this context are Easterly (2001); Krugman (1990); Rodrik (1997, 1999).
18. The key elements of his criticisms concerning the IMF have been summarized in Stiglitz (2002). The fact that he was awarded the Nobel Prize during this period undoubtedly contributed to the publicity that his views received.

alternative to the basic pillars of the Washington Consensus.[19] Based on the contributions of Stiglitz, we can provide a concise stylized picture of the PWC that has increasingly influenced the overall thinking process of key institutions such as the World Bank and the IMF in recent years.

Perhaps the key element of the PWC is the recognition that states have an important role to play in the development process. Within neoliberal orthodoxy, expanding the domain of the market had necessarily meant reducing the domain of the state in the economy. Whilst the PWC also favours liberalization of the economy and greater reliance on the market, states and markets are conceived of as complementing rather than substituting for each other. The role of the state in fostering the development of the market is considered to be critical in a number of important respects — the underlying vision no doubt influenced by the revisionist, institutionalist accounts of East Asian success in the pre-crisis era.

In highlighting the activist role of the state in a predominantly open and market-oriented environment, certain aspects receive particular attention. There is a clear emphasis on the regulation of the financial system, based on the recognition that excessive risk-taking by undercapitalized banks can be a major cause of crises: proper regulation of the financial system is important in terms of mobilizing capital, giving depositors more confidence in the banking system and improving allocation of investment. State support for education is considered to be critical in supplying high quality manpower, while the role of the state in providing infrastructure (or, at least, taking regulatory action to ensure the private provision of infrastructural services such as transportation at reasonable prices) is also recognized. Another vital role for the state is the development and transmission of technology (such as agricultural extension services). Finally, states can help promote equality and alleviate poverty — an acknowledgement of the fact that such policies in East Asia have contributed to overall growth.

A certain similarity can thus be detected between the PWC and the structuralist logic underlying national developmentalism that preceded the neoliberal era. Market failures are considered important and need to be corrected by active state intervention. Yet, the logic of the PWC goes one step further than national developmentalism, in line with the neoliberal critique, by focusing on the question of how to improve the performance of the state and avoid government or state failure in the first place. The important contribution of Stiglitz in this context is to highlight the fact that the effectiveness of states can be improved by using market-like mechanisms. An interesting symmetry is established by noting that states are important for the effective functioning of markets but also that markets or market-like mechanisms are important for the effective functioning of states.

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19. For a useful exposition of the basic propositions associated with the PWC, see Stiglitz (2001).

The importance of the market for improving the performance of the state embodies the following crucial elements. First, internal incentive structures and reward systems are critical for improving the quality of state bureaucracy. Second, competition is crucial to governmental efficiency; states can help to stimulate competition and benefit from competition themselves. States can create competing public agencies and encourage private firms to compete with public agencies. Indeed, competition is arguably more important than private ownership *per se*. State-owned firms have managed to perform as effectively as private firms when they have been subjected to competitive pressures. Hence, privatization at all costs which fails to pay sufficient attention to competition and ignores the role of a proper regulatory infrastructure is inconsistent with the logic of the PWC.

There is a clear recognition that the international economy during the recent era has failed to provide a sufficiently attractive environment for development. Private capital flows to the 'south' are heavily concentrated in certain countries. Aid flows have declined drastically in recent years and continued restrictions by developed countries over market access in key areas like agriculture and labour-intensive manufactured goods continue to constitute a major barrier to the exports of developing countries. The basic precepts of the PWC are thus not confined to the domestic sphere but also embody an international dimension. Industrialized countries can contribute to development by increasing aid and market access to the products of the Least Developed Countries (LDCs).

A key element that distinguishes the PWC from the early neoliberal agenda is its recognition of the importance of a change in institutions as an essential component of the new development strategies. Creating effective institutions becomes part and parcel of successful development. Similarly, much more emphasis is given to social and income distributional consequences of economic policies. For example, improved education and health are not merely instruments in terms of increasing growth but also constitute ends in themselves. In achieving fiscal discipline, attention is centred on where expenditure cuts are concentrated. If deficit reduction is achieved through cuts in government expenditures in education and health, then growth will be jeopardized.

Finally, the growing recognition of the importance of democratic regimes in creating transparent and accountable states is becoming one of the hallmarks of the emerging PWC. This aspect again contrasts sharply with the earlier days of the Washington Consensus. The hard-line versions of neoliberal thinking, in line with its Hayekian political economy foundations, clearly underestimated the importance of democracy and democratic institutions in the effective implementation of the reform process. Indeed, there was an active attempt to depoliticize the economic decision-making process, if not the society at large, and to restrict the domain of democracy as a means of fostering the smooth and speedy implementation of market-based economic reforms. Subsequent experience in many parts of the world, from

Latin America to post-communist Eastern Europe, has clearly demonstrated the costs of attempting to combine neoliberal economics with illiberal democratic forms of governance — costs which have manifested themselves in the form of widespread corruption and state failure, as well as the human costs of the authoritarian regimes themselves.[20]

THE EMERGING POST-WASHINGTON CONSENSUS IN CRITICAL PERSPECTIVE

There is no doubt that the kind of synthesis that forms the intellectual basis of the PWC represents a considerable improvement over the rather simplistic neoliberal understanding of development that had constituted the very basis of the earlier Washington Consensus. Not only is the need for an active role for the state in dealing with important market failures, most notably in the realm of finance, duly recognized, but attention is also given to the fundamental issues of how to improve the performance of the state itself in trying to overcome market failures. The latter issue certainly had not received any serious attention in the pre-neoliberal era in the age of national developmentalism. Structuralist development theorists had assumed that 'the state' or 'planners' would always act in a benign fashion in the public interest, failing to consider the political and institutional prerequisites for effective state intervention in the process. The new synthesis embodied in the PWC represents progress over the structuralist and neoliberal formulations by trying to tackle the question of how to improve the performance of the market and the state simultaneously through their mutual interaction. It also recognizes the crucial role that institution-building and democratic governance can play in the process of successful development — elements that had been woefully neglected by the neoliberal hardliners. Similarly, the PWC represents a more refined understanding of development through a shift of focus on growth and efficiency to a more nuanced understanding of development that emphasizes the importance of additional policies to deal with key social problems such as pervasive unemployment, poverty and inequality.

In spite of the obvious strengths of the emerging PWC, however, a closer investigation also reveals some rather striking limitations, particularly as the new line of thinking is put into practice by the key international organizations such as the World Bank, the IMF and the WTO. We believe that a number of these limitations particularly need to be highlighted.[21]

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20. For an attempt to deconstruct the costs of trying to implement neoliberal reform in the context of an illiberal democracy with reference to the Özal era in Turkey, see Öniş (2003).
21. For existing critiques of the emerging PWC, see Fine et al. (2003) and Jayasuriya and Rosser (2003). This article tries to go significantly beyond these existing critiques.

The PWC's new emphasis on institutions represents an important and useful recognition that markets do not function without supporting state and social arrangements. Such arrangements include cohesive, market-driven state agencies, systematic public–private exchanges and collective private sector institutions capable of addressing specific development problems. Yet the PWC has not offered a politically viable route towards the developments of these arrangements.

In the practical application of the new policy agenda, it is possible to identify a systematic bias towards domestic reforms as opposed to systemic or global reforms. For example, the IMF has, in recent years, been emphasizing the importance of regulatory reforms, particularly with reference to banking and finance. This represents a shift in its approach away from a single-minded concern with short-term stabilization to longer-term structural and institutional reforms designed to improve the performance of the market mechanism over time. Yet, at the same time, the IMF has been totally impervious to suggestions involving the implementation of heterodox policy instruments such as temporary short-term capital controls that have proved to be quite successful in certain national contexts.[22] Indeed, it has been impervious to any kind of attempt to deal with endemic financial crises in the semi-periphery, as a global market failure would necessarily require global measures such as an internationally co-ordinated Tobin tax (an international tax on foreign currency transfers) on short-term capital flows, as an integral part of reforming the international financial structure. It is fair to say that both the IMF and the World Bank tend to locate the principal source of frequent financial crises squarely in the domestic political economies of the debtor countries concerned (see Armijo, 2001). Hence, the focal point of their attention becomes that of improving the regulatory structures of the countries concerned at the expense of all other considerations.

Self-interest and power relations have been much in evidence as the overriding factors in the history of international economic relations in the post-World War II period. The hierarchy in economic and political power has been the key determinant of economic outcomes not only between developed and developing countries, but also among the developed countries themselves, with power relations from the most powerful in the centre spreading to the periphery in concentric circles. The conflicts between the United States and Japan and Germany on trade and exchange rate issues

22. Some IMF officials have recognized that controls over short-term capital flows might have played a positive role in avoiding financial crises in Malaysia and Chile: see Ariyoshi et al. (2000: 22–3, 26–8, 37) and Robinson (1999). Nevertheless, the IMF has been rather unreceptive to arguments such as those of Wade (1998) that emphasize the global causes of emerging market crises and, hence, propose the reform of the international financial architecture with special emphasis on capital controls.

are well documented. The dominance of developed countries in the world economy is extensive, encompassing production, finance, trade, and technology: 90 per cent of all patents originate in these countries, and two-thirds of world trade is controlled by only 500 transnational corporations (TNCs), again originating mostly from these countries (see Kozul-Wright, 2003). As developing countries seem to have entered a race to attract foreign investment at all cost, governments even in developed countries seem to be facing difficulties in coping with the growing power of these enterprises. Despite the considerable progress developing countries have made towards trade liberalization in recent years, developed countries have been slow to replicate this in terms of granting increased market access for developing country exports.

In these hierarchic power relations dominated by self-interest, the demands of developing countries for a more democratic international economic environment have fallen on deaf ears — even when the developing countries were able to raise a united and powerful voice in 1974, for the creation of a New International Economic Order. The radical reform of the international economic system may still be relevant for the emergence of an international environment more conducive to development. In particular, there is a need to democratize international financial institutions, to give them a pro-Third World orientation, and to establish effective international mechanisms for the regulation of TNCs, with the objective of curbing their monopoly power and controlling the massive short-term capital flows which are a source of short-term instability in developing countries. However, the prospects for developing countries to repeat even their abortive challenge of 1974 now seem rather slim, given the deep divisions among them and the increasingly lopsided international power structure.

This emphasis on skewed power relations in the international sphere should not detract attention from equally pressing issues on the domestic front which are also sidelined by the PWC. The PWC's emphasis on independent regulatory bodies with the objective of preventing political interference ignores the formidable obstacles they may face in societies dominated by powerful vested interests, blocking their effective operation. Although there has been some progress towards democracy within individual developing countries, the political obstacles hampering the spread of the benefits of development to the lower strata of the population are still in place. The state may not fulfil even its limited role under the PWC, as the weakening of the state apparatus and the very notion of effective state intervention have been substantially eroded under neoliberalism. The neoliberal practices of the past two decades may also have had a lasting impact on state agents and officials alike, impairing their ability to readjust to a new agenda involving fresh thinking in spheres such as poverty alleviation. It is unlikely, therefore, that any efforts on the part of national governments towards poverty alleviation and more equal income distribution will have a significant impact, unless the obstacles preventing the poor and the

underprivileged from expressing themselves as a powerful political force are removed.

One might also question the sincerity of this renewed concern of key Bretton Woods institutions with income distribution and poverty alleviation. A whole set of issues then needs to be considered, including the feasibility of significant redistribution within the broad fiscal constraints of neoliberal re-structuring. Here the distinction between rhetoric and action is important. The proponents of the PWC, in particular the Bretton Woods Institutions, seem to shy away from carrying out a balanced analysis of the neoliberal globalization process, and especially from identifying the factors that lead to the marginalization of whole regions and large sections of the population within the developing countries, which denies them the benefits of this process. They also ignore mounting evidence linking progress in poverty alleviation with a whole set of distributional issues, including ownership patterns. Attempts to link these considerations with poverty in the preparation of the World Bank's *World Development Report 2000–2001* met with opposition from the higher echelons of power, including the US Treasury, leading to the resignation of Ravi Kanbur, chairman of the team preparing the report (see Kanbur, 2001; Wade, 2001c). Proponents of the PWC emphasize the importance of increased capital flows, including official aid, and market access for countries of the south. As the reform of key international institutions has been on the agenda for more than three decades with little progress, serious questions can be raised about the possibility of translating the favourable rhetoric on poverty and income distribution into action in the presence of severe domestic and international constraints.

It is also important to note that poverty and inequality issues are effectively sidelined in emerging markets like Argentina and Turkey which experience frequent financial crises. The IMF becomes the dominant external actor in the context of such countries, with the World Bank typically relegated to secondary status. Given the focus of the IMF on short-term adjustment and regulatory reforms, conditions relating directly to poverty and inequality fail to be incorporated into its stand-by programmes in these countries. In fact, the obsession of these programmes with the creation of a primary budget surplus necessarily interferes with social sector spending and calls into question the sincerity of the IMF on the poverty alleviation issue. In fact, one gets the strong impression that the Bretton Woods institutions are using the poverty issue as a pretext for broadening and deepening the neoliberal agenda.

The ability to increase employment is of crucial significance not only for economic reasons but also for maintaining social cohesion in the countries concerned, but the employment issue, as an explicit objective in its own right, is not sufficiently emphasized by the PWC. This neglect can be traced more broadly to the capture of domestic economic policy agendas of most developing countries by the Bretton Woods institutions. Even countries that do not have formal agreements with these organizations seem to have been

carried away with a vague globalization objective and to be devoid of national development objectives. The present international economic environment is not conducive to successful industrialization of developing countries — not least because national governments have lost the bulk of the tools they have traditionally used for this objective and neither the Washington Consensus nor the PWC has prioritized it. Crucial decisions concerning the need to develop a strong domestic technological base are similarly relegated to the background, so that the primary emphasis in obtaining technology is implicitly placed on foreign investors. This limits the crucial role of domestic actors, even though the experience of successful countries has shown that the factors which are key to that success are a high investment rate and emphasis on industrialization through selective, targeted industrial policies focused on capital-, skill- and technology-intensive activities — areas which, propelled by rapid export growth, have a high domestic value-added content.

The poor record of the neoliberal model in generating employment may be traced to some of the internal inconsistencies of the policy package that it involves. The emphasis on financial liberalization and the windfall gains it has offered through speculation and risk-taking have meant the accumulation of economic surplus in the hands of rentiers, a class of people not renowned for their enthusiasm for industrial investment. Without investment in directly producing sectors, relying on extending neoclassical wisdom to this sphere through emphasis on labour market flexibility is not likely to generate employment on a scale sufficient to alleviate the immense pressures on the supply side of labour markets and bring about a significant turnaround in the prospects of unskilled labour. The concern of PWC with education and human capital formation is justified but is not sufficient. Both the demand and supply sides of the labour market need to be taken into account. Education fetishism results in a certain lack of emphasis on key issues that are directly relevant to the debate on employment prospects. For example, the existence of a large pool of highly educated manpower without sufficient growth in directly producing sectors like manufacturing to provide productive employment for them may represent a source of unemployment and brain drain. Likewise, the absence of global redistributive mechanisms and the fact that channels of international migration for unskilled or semi-skilled labour are largely closed are issues which tend to be underplayed in discussions pertaining to employment prospects in the south.

TNCs constitute highly powerful actors in the world economy. The common element between the Washington Consensus and the PWC is the protection of TNCs from regulation by host states. By definition, TNCs are large oligopolistic firms that wield considerable economic and political power exercised on a global scale — hence, their activities need to be regulated at the global level. But the emerging agenda of the PWC does not include a balanced approach towards the regulation of TNCs, which would involve the interests of consumers and host countries.

The PWC also faces a formidable dilemma in reconciling its emphasis on global market integration with democratic governance. In the process of global market integration, national governments have been stripped of their powers to determine policies in the socio-economic realm. Although the key Bretton Woods institutions have been apportioned part of the blame in some notable recent cases such as Turkey, national governments are still held responsible for the ill effects of global market integration, in particular for the adverse socio-economic impact of severe crises that have accompanied financial opening. The inability of governments — deprived of the necessary tools — to deal effectively with these problems has led to a loss of their credibility in the eyes of the electorate. At the same time, the emphasis of the PWC on closer interaction between state and market to improve performance fails to recognize that global market integration has seriously tilted the balance of power between these institutions in favour of the market. The inability of the state to impose rules and regulations to keep market power in check has posed problems for both democratic accountability and political legitimacy.[23]

POWER RELATIONS AND THE LIMITS ON ACCOUNTABILITY

The key Bretton Woods institutions will continue to play a prominent role in the implementation of the PWC, as they have done under the Washington consensus.[24] This could lead to the justifiable charge that the very institutions which may be responsible for much of the damage under neoliberal reforms, are now in the driver's seat in a process set up to rectify it. One relevant problem here is a credibility gap that exists between these organizations and the development community at large.

Although we do not have full knowledge of the decision-making processes within the Bretton Woods institutions, it is fair to assume that they are not monolithic organizations; nor do they demonstrate a high degree of agreement within major segments in their internal structures. The shift in World Bank policy from basic needs to structural adjustment in the 1980s and back to poverty in the 1990s, and the more recent changes within the IMF broadening its agenda to encompass governance issues, are cases in point. These changes reflect not only shifts within the organizations, but also the interests of the more powerful countries, which are determined by the changing international environment. This leads to the serious charge that the organizations act in the interests of the latter countries, most notably the

23. In the formulation of our views in this paragraph, we have benefited from the comments of one of the anonymous referees.
24. We focus our attention here on the IMF and the World Bank. We recognize that the WTO also needs to be taken into account, but that requires separate investigation.

US. The Washington Consensus itself may have been moulded by these institutions with a close eye on US interests (see, for example, Gore, 2000: 790). More specifically, one could argue that the primary concerns of the US were to achieve market access for American exports, and that US interests were compatible with moderate rates of economic growth in emerging markets, but not with the major breakthroughs in industrialization that would threaten US industry over time, as Japan and South Korea had done so successfully in the past. Policy shifts towards foreign trade liberalization and export orientation in many developing countries, through neoliberal reforms under the auspices of Bretton Woods institutions, have thus been linked as much with the competitiveness problems of US industry and the desire to increase the debt-repayment capacity of these countries, as with growth and efficiency considerations associated with greater export-orientation. More recently, there were widespread press reports that IMF support of stabilization efforts in Turkey were linked with the Turkish stance *vis-à-vis* US policy in Iraq.

The current emphasis of the Bretton Woods organizations on democratic governance is hardly consistent with their past record. Turkey's adoption of neoliberal policies in early 1980 in close collaboration with the World Bank (through successive structural adjustment loans) and the IMF through a three year stand-by agreement, for example, took place against the background of a repressive military regime. The fact that neither institution showed any scruples about working in tandem with the military regime, and that both remained silent when key democratic institutions and activities of powerful NGOs were strictly curbed, reduced their credibility when they tried to play the role of champions of democracy and good governance shortly thereafter. In the drawing up of structural adjustment loan agreements, which represented by far the biggest transformation of Turkish economic policies, the World Bank kept a low profile, while a great deal of secrecy surrounded the standby-agreements that Turkey signed with the IMF during this period. The link between the rise of neoliberal policies and authoritarian regimes is not, of course, confined to Turkey: Chile after 1973 and Argentina after 1976 offer other notable cases.

In terms of their basic structures, decision-making processes and other operations, the World Bank and IMF hardly conform to the stipulations of good governance. This has led to calls that they should set an example by applying standards of transparency, accountability and participation to themselves (see Woods, 2000). To the extent that implementation of neoliberal policies has — through the deliberate weakening of the state apparatus and encouragement of rent-seeking — contributed to corruption, these institutions again find themselves in the paradoxical situation of repairing the damage to which they themselves contributed. The deliberate depoliticization of society at all levels through repressive regimes in Turkey and elsewhere was crucial for neoliberal reforms to take root. This probably explains the weakness of the opposition to neoliberal policies and the

inability to provide a viable alternative. However, the same process of depoliticization may be responsible for the slow progress towards the emergence of effective NGOs and the transparency and good governance in public administration that these institutions now emphasize.

The World Bank, which is the more developmental of the key Bretton Woods institutions, needs to explain why it was silent on the poverty issue throughout the 1980s, when neoliberal policies implemented during that period did a great deal of damage in this sphere (see Şenses, 2001: 39–44). Even after the re-emergence of poverty alleviation as a major objective during the past decade, the record of the Bank and IMF in this area have done little to close the credibility gap. The recent Turkish economic programme, for example, which was drawn up and implemented in close collaboration with the IMF, in the midst of a deep economic crisis which had a devastating impact on poverty, was silent on this. Similarly, the efforts of the World Bank to come to grips with the problem have fallen far short of what was needed. As long as the commitment of these organizations to the poverty alleviation objective is in doubt, the impression will persist that they have used it both to cope with the increased criticism that neoliberal reforms have attracted and also to broaden and deepen these reforms.[25]

The ability of Bretton Woods institutions to deal with the problems faced by developing countries has been increasingly questioned in recent years. The failure of the IMF during the past decade in such crucial spheres as the prediction and prevention of short-term economic crises in various parts of the world, and in effectively dealing with them once they arise, has been a source of major criticism, with serious questions raised about the future of these organizations.[26] The failure of the IMF, in particular, to learn from past mistakes provides additional ammunition for the critics and contributes to the erosion of confidence in the organization. For example, in Turkey neither the IMF nor domestic policy-makers have learned the necessary lessons about the hazards of financial liberalization without sufficient regulation and legal safeguards. As a result, capital account liberalization after 1989 resulted in successive financial crises with dire consequences. Domestic financial liberalization *per se* was not immune from financial crises either, as the 'bankers' crisis' of 1982 clearly demonstrated. The failure of the IMF to warn Turkish policy-makers about the risks and dangers of overexposure to short-term external capital before the successive crises of the past decade, suggests that the organization has a disturbingly short memory, as the Turkish crisis of the late 1970s could be traced to a similar phenomenon.

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25. In the case of Turkey, for example, the extension of neoliberal reforms in the domain of agriculture, social security and the labour market has been closely linked with this objective.
26. The American Economic Association annual meeting in 2003 had a special session on this subject. See American Economic Association (2003).

The involvement of these institutions in neoliberal restructuring has been extended to most developing countries in a broad range of policy areas. This, together with the broadening of their conditionality into the political sphere, has been instrumental in eroding self-reliance and domestic problem-solving ability in these countries. One could argue that the excessive involvement of the IMF in the domestic policy-making process of individual countries and the uniform set of conditions imposed on them, regardless of their respective institutional and political capacities, has effectively prevented these countries from generating appropriate domestic responses to their problems, thus damaging the learning process of institution building. Perhaps in certain circumstances reform could only be engineered in a top-down fashion. Yet the top-down approach has led to a situation where reforms have been engineered without generating the requisite social consensus, which has undermined the longer-term viability of the reform process and the effectiveness of some of the key regulatory institutions imposed from above.

Finally, while the PWC stresses the importance of creating transparent and accountable institutions as a basis for improved economic performance, the focus of attention is the domestic level within the domain of the individual nation state. The same kind of concern does not extend to creating transparent and accountable institutions in the international sphere. Issues concerning the transparency and democratic accountability of the IMF, the World Bank and the WTO, as well as problems arising from their domination by developed country interests, receive only cursory attention from the intellectual proponents of PWC and from the institutions themselves.

All these considerations point towards a deeper, more fundamental problem that lies at the heart of the emerging PWC — namely the inability or unwillingness to address major issues pertaining to power and its distribution both at the domestic and international levels. The PWC represents a response by the dominant establishment to the deficiencies of the neoliberal agenda and an attempt by them to overcome such deficiencies through a set of reforms that takes the existing structures of power as given. This may be justified in the short term, on the grounds of what is practical and feasible in terms of improving economic performance. But in the long run, such reforms may represent a partial and insufficient response, given the scale and depth of the problems involved, which include increased unemployment, poverty and inequality at the global level.

CONCLUDING OBSERVATIONS

The very foundations of the neoliberal orthodoxy that informed the key Bretton Woods institutions have been severely shaken in the context of the 1990s. The process of neoliberal restructuring has been associated with weak

growth performance, persistent poverty, rising inequality and endemic crises with costly ramifications. Countries that have performed better than average have typically been those that managed to deviate from rigid neoliberal norms in certain critical respects. Consequently, the dominance of the neoliberal paradigm has been challenged both from the centre and the periphery, from inside and outside the dominant academic and policy-making establishment. Undoubtedly, it was criticism within the establishment that was decisive in the gradual progression towards a new kind of consensus among the key international financial institutions, labelled the Post-Washington Consensus. The intellectual contributions of scholars like Stiglitz also played a critical role.

The basic precepts of the emerging Post-Washington Consensus represent a novel synthesis of the two previously dominant paradigms in development theory and policy, namely national developmentalism with its emphasis on the critical role of the state in overcoming market failures, and neoliberalism with its unquestioning belief in the benefits of the free market. The new approach recognizes the importance of the state in the context of open markets and a more liberal policy environment. But, at the same time, it recognizes the need to avoid state failure which, in turn, requires institutional innovation and democratic governance. Furthermore, the new approach places significant weight on the need to tackle poverty and inequality as objectives in their own right, thus moving away from an exclusive preoccupation with growth and efficiency objectives. In all these respects, the emerging PWC represents a more progressive approach to development as compared with the naïve and unqualified application of the Washington Consensus.

Nevertheless, there are also important limitations within the PWC. A central criticism is that it adopts a rather narrow and technocratic approach towards state–market interactions at both the national and global levels. It takes the existing power structure as predetermined. Hence, it fails to address the fundamental power relations and asymmetries of power that exist between classes at the level of the nation state, and powerful versus less powerful states in the global economy, although it is these very power relations that need to be challenged if key development issues are to be tackled in a comprehensive manner. In this sense, the horizons of both the World Bank and the IMF appear limited.

It is also important to recognize that the broad agenda of the emerging PWC is not equally welcomed or shared by these institutions. There is no doubt that the IMF experienced a serious identity crisis after the Asian crisis and has been trying to reform itself, perhaps more intensively than at any other time in its history. Nonetheless, the IMF has a more restrictive vision or understanding of what ought to be the fundamental components of the new PWC. This has important implications, as the IMF continues to be the dominant actor especially for the more advanced, crisis-ridden 'emerging markets' of the semi-periphery, while the World Bank — with its more

progressive vision of the PWC — occupies a secondary and supporting role in such contexts. The focus of the IMF on short-term financial discipline and regulatory reforms therefore constitutes a serious additional constraint to the application of some of the more progressive elements of the PWC, designed to deal with poverty, inequality and the longer-term competitiveness of national economies. Industrialization, which was the overriding development objective under national developmentalism, was wiped off the agenda under neoliberalism. There is no sign that this objective will be reactivated under the PWC, even though the historical experience of developed countries (as well as those of successful industrializers in the Third World) has provided sufficient evidence that progress in this sphere goes hand in hand with developing domestic technological capabilities and generating employment.

The spread of neoliberal ideas to developing countries and to the post-communist transition economies has had a self-perpetuating effect, reinforcing the view that there was no alternative. The criticism levelled against these policies by the emerging Post-Washington Consensus, while falling far short of dealing with the main issues involved, still represents a crack in the neoliberal armour; it may lead to fresh thinking and accelerate the search for viable alternatives. The question remains as to whether the PWC — together with the flourishing alternative globalization movement and against the background of increasing distributional imbalances at all levels — will bring about such a change, and how quickly.

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